2000 Annual Report

[redacted]

International Sovereign Energy Corp.

Corporate Profile

International Sovereign Energy Corp. is a Canadian based publicly traded exploration and development company with offices in Calgary, Vancouver and Pakistan. The Company is active in the acquisition, exploration and development of hydrocarbon reserves in Western Canada and internationally.

Incorporated in 1992, International Sovereign owns and operates producing oil and gas properties in Western Canada. The Company continues to expand this production base through the acquisition and exploitation of underdeveloped producing properties as well as through the drilling of low to medium risk exploration and development opportunities. A conservative, low risk approach to growth in Western Canada provides a high quality and substantial production base which affords the Company the ability to seek out and evaluate late stage exploration or early stage development opportunities internationally.

The Company is committed to significantly increasing its Western Canadian reserve base as well as securing a significant international project that will provide rapid growth and deliver maximum value to its shareholders.

The shares in International Sovereign Energy Corp. are publicly traded on the Canadian Venture Exchange under the symbol "ISR". At year end 2000, the Company had 6,442,713 shares issued and outstanding.

Annual Meeting

The Annual General Meeting of Shareholders of the Corporation will be held on Wednesday, June 20, 2001 at 2:30 p.m. in the Chateau Belair Room at the Sutton Place Hotel located at 845 Burrard St., Vancouver, British Columbia. Shareholders and members of the public who are interested in receiving more information on the Company are encouraged to attend.

Contents

Abbreviations

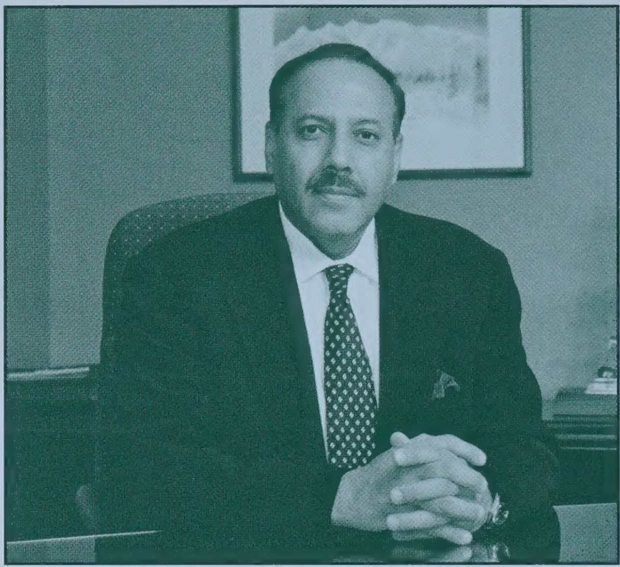
M	thousands
bbls/d	barrels per day
Mcf	thousands of cubic feet
bopd	barrels of oil per day
MM	millions
BOE	barrel of oil equivalent (1 bbl = 10 Mcf)
MMcf	millions of cubic feet
bbl	barrel
ARTC	Alberta Royalty Tax Credit
NGLs	natural gas liquids
BTU	British Thermal Unit

Highlights – Year in Review

	2000	1999
Operating		
Production		
Oil & NGLs (bbls)	96,598	76,726
Per day	264	210
Natural Gas (Mcf)	273,693	208,756
Per day	748	572
Exit Production		
Oil (bopd)	440	200
Natural Gas (Mcf per day)	840	878
Proven and Probable Reserves		
Oil & NGLs (Mbbls)	1,287	907
Natural Gas (MMcf)	4,327	3,734
Average Price Received		
Oil ($ per bbl)	$ 32.20	$ 22.36
Natural Gas ($ per Mcf)	$ 5.83	$ 2.47
Financial		
Gross Revenue	$ 4,706,765	$ 2,254,754
Cash Flow	2,865,821	975,130
Per Share	0.44	0.15
Net Income (Loss)	1,121,270	112,314
Per Share	0.17	0.02
Capital Expenditures	2,428,478	803,993
Acquisitions	653,346	1,555,782
Divestitures	–	311,321
Long Term Debt	nil	nil
Net Asset Value	15,219,475	8,116,518
Per Share	$ 2.36	$ 1.26
Class A Common Shares Outstanding at Year End	6,442,713	6,442,713

It is my privilege to report to our shareholders that International Sovereign Energy Corp. was very successful financially and operationally during the year ending December 31, 2000.

The oil and gas industry will remember the year 2000 as a time of robust oil prices and record gas prices, with the foreseeable future looking equally bright. Companies which grew in production while increasing their asset base were rewarded with cash flow and asset value the likes of which have never before been experienced by our industry.



Lutfur Rahman Khan, *Chairman of the Board*

International Sovereign Energy Corp. was no exception. The net present value of the Company doubled during the past year as a result of the reserve base being increased by 34%. Average annual production increased by 26% while our year-end exit rate increased 82% over the previous year resulting in a 194% increase in cash flow. Along with the majority of our peers, the Company's shares are trading at a significant discount to their underlying value. Our net asset value is approximately $2.36 per share while the Company cash flow was at $0.44 per share in 2000.

International Sovereign Energy enjoyed a 96% success rate in drilling this year with an average working interest of 21.4%. If we exclude the 27-well program that was drilled as a second phase of the Wildmere Unit exploitation plan, then our average working interest increases to 86.7 for the remaining 6 wells drilled.

The increased revenues flowing into the Company resulted from a successful drilling program augmented by record commodity prices. These strengthen the Company's ability to tolerate risk and allow for participation in a greater number of drilling opportunities in western Canada for the upcoming year. The growth we achieved this past year was mainly the result of development drilling and asset acquisition while our exploration efforts concentrated on seeking and evaluating international projects, which if successful, would eclipse anything we could achieve domestically.

The Company's primary focus remains to secure and commence development of an international oil project, which will have a significant impact on our cash flow. Our experienced technical team has been invited by various countries to some of the world's most lucrative, yet underdeveloped sedimentary

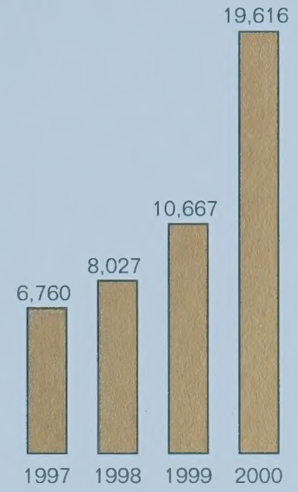
basins to evaluate producing fields requiring western capital and expertise. Such is the situation in Pakistan, where the Company has located a field office, and in Ecuador, where the Company is in the process of establishing a subsidiary. In addition, we are advancing opportunities in Central Asia.

Offsetting these exciting exploration opportunities are the pitfalls associated with international projects, since great rewards are usually coupled with great risk. Our global opportunities require an extraordinary amount of due diligence, both technically and commercially, so as to mitigate the potential risks before fully committing the Company's resources to a project.

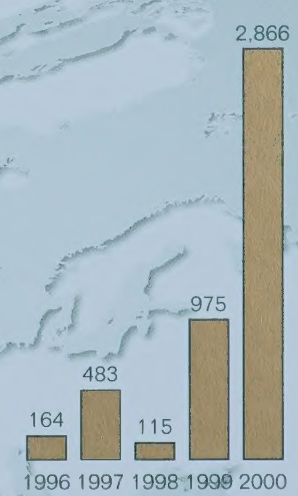
In the year 2001, the Company aims to double its domestic production. The primary objective of the Company is to provide a real and significant increase in value to our shareholders. On behalf of the Board of Directors, I wish to thank our shareholders for their continuing confidence in our objectives and their support and patience in allowing us to achieve our goals.

Lutfur Rahman Khan
Chairman of the Board
April 30, 2001

Net Present Value
(10% DCF)
($ Thousands)



Cash Flow
($ Thousands)

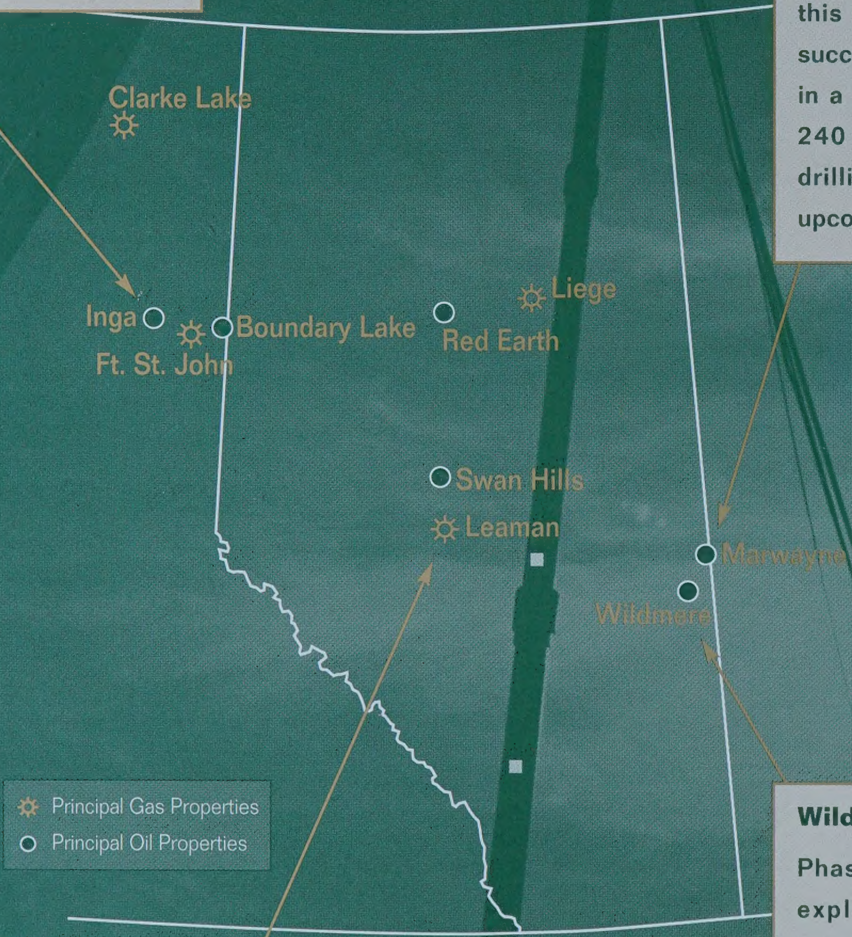


Inga

Increase our working interest to 90% and work over well to restore light oil production to 20 bopd.

Marwayne

The Company drilled five 100% working interest wells during the year on this property with a 100% success rate. This resulted in a production increase of 240 bopd. Additional drilling is planned for the upcoming year.



Leaman

Tie-in of a 30% working interest well which is currently producing 500 Mcf/d.

Wildmere

Phase 2 of the long term exploitation plan was completed this year. The Company participated in the drilling of 20 new producers and 6 water injectors in the Wildmere unit. This activity will increase our net production in the property to approximately 100 bopd.

Operations

International Sovereign participated in 33 drilling operations during the past year.

2000 saw the completion of Phase 2 of the Wildmere Unit exploitation plan which consisted of an infill drilling program of 21 development wells and 6 water injection wells. All but one of the infill wells was cased for oil production. A total of 5 successful development wells were drilled on the Company's 100% owned heavy oil property at Marwayne while an exploratory test in which the Company had a 20% participation at Kirkpatrick Lake was unsuccessful.

In addition to the drilling program, the Company re-completed one suspended well at Marwayne resulting in oil production from the Sparky sand. A second re-completion for Lower Mannville gas on a 75% working interest well at Joffre in Central Alberta proved unsuccessful and the well was subsequently abandoned. Three additional wells that had been suspended were abandoned during the past year as part of the Company's ongoing commitment to eliminating any outstanding abandonment or environmental liabilities.

Production

International Sovereign exited the year producing approximately 524BOE/d consisting of 840 Mcf/d natural gas and 440 bopd. This represents an 82% increase over the previous year. Average production for the year consisted of 748 Mcf/d and 264 bopd for a total of 339 BOE/d, up 27% over 1999 production.

Acquisitions and Divestitures

During the reporting period the Company concluded three acquisitions totaling approximately $650,000.

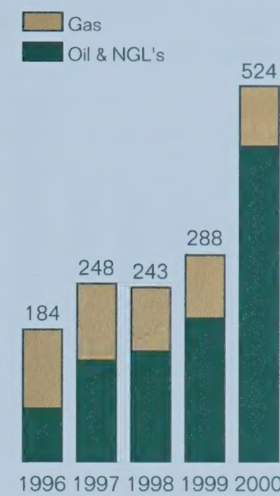
At Marwayne, in east central Alberta the Company increased its working interest from 70% to 100% in the west half of section 28, and to 50% in the balance of the lands through the acquisition of a partner interest.

At Medicine River in central Alberta two shut-in gaswells, one producing gaswell and some minor oil interests were acquired adding approximately 18 BOE/d liquid rich gas production at a cost of $12,000 per producing BOE. Tie-in of the two shut-in wells is expected to net the Company an additional 25 BOE/d.

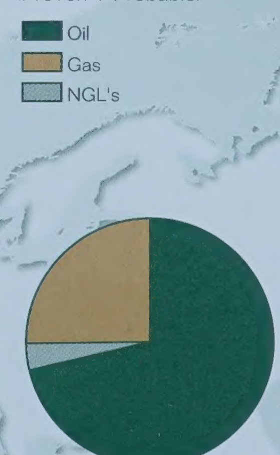
At Inga, in northeastern British Columbia the Company purchased a 15% interest in a Boundary Lake oil well which it operates, bringing its total interest in the well to 90 %.

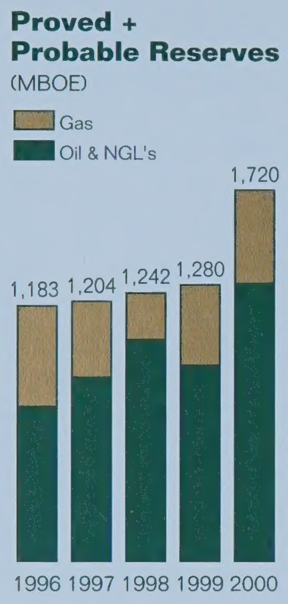
The Company did not divest itself of any assets during the past year.

Production
(Year End Exit Rates)
(BOE/D)



Reserve Allocation
(Proven + Probable)





Reserves

The Company reported a substantial 34% increase in its proved plus probable reserve base as at December 31, 2000, over the previous year, of which 80% are classified as proven.

Approximately 75% of the Company's proved plus probable reserves consist of oil and natural gas liquids. A proved plus probable reserve life index of 10 years for oil and 15 years for gas indicates the high quality of the production base the Company has established. In the upcoming year Management will continue to increase production through drilling and acquisitions which maintain the reserve life but will look to achieve a balance in its production with respect to commodities.

The table below presents the Company's proven plus probable reserves before royalties as evaluated by the independent firm of Chapman Petroleum Engineering Ltd. as at January 1, 2001.

Pricing

	Crude oil Edmonton Light Sweet ($ Cdn. Per bbl) Effective 1/1/01	Effective 1/1/00
2001	38.64	28.63
2002	36.79	30.11
2003	37.89	31.01
2004	39.03	31.94
2005	40.20	32.90
2006	41.41	33.89
2007	42.65	34.91
2008	43.93	35.95
2009	45.25	37.03
2010	46.60	38.14
2011	48.00	39.29

	Gas Reference Price ($ Cdn. Per MMBTU) Effective 1/1/01	Effective 1/1/00
2001	5.50	2.58
2002	4.00	2.65
2003	4.12	2.73
2004	4.24	2.81
2005	4.37	2.90
2006	4.50	2.99
2007	4.64	3.07
2008	4.78	3.17
2009	4.92	3.26
2010	5.07	3.36
2011	5.22	3.46

Reserves

	Proven	Probable	Total
Gas (MMcf)	4,173.0	154.0	4,327.0
Oil (Mbbls)	905.0	321.0	1,226.0
NGL's (Mbbls)	61.0	0.0	61.0
Total (MBOE)	1,383.3	336.4	1,719.7

The table below presents the discounted present value of the Company's reserves as at January 1, 2001.

Present Value of Reserves

$ Thousands

Present Value, before tax, Discounted at	10%	15%
Proven	17,347	14,329
Probable	2,269	1,576
Total	19,616	15,905

Note: Values include ARTC

Production and Revenue

Revenues for the reporting period were $4,706,765, an increase of 108% over 1999. This was due to an increase in average production of 26% on a BOE basis over the preceding year and to significantly higher prices received for oil and gas sales throughout the year, with gas prices rising dramatically at year-end. The acquisition of properties made in late 1999 from a junior producer contributed to increased production throughout the year. In the later half of the year, five new 100% working interest oil wells went on production in the Marwayne area while gas production increases were attributable to a gas well purchased in the Medicine River area and the tie-in of a shut-in gas well in the Leaman area. Corporate revenues were split 66% from oil sales and 34% from the sale of natural gas. Average daily production was 264 bopd and 748 Mcf/d as compared to 210 bopd and 572 Mcf/d in the prior year. The average price received for oil in 2000 was up 44% to $32.20 per barrel, compared to $22.36 per barrel received for 1999. The average natural gas price received increased 136% over 1999 from $2.47 per Mcf to $5.83 per Mcf.

Royalties

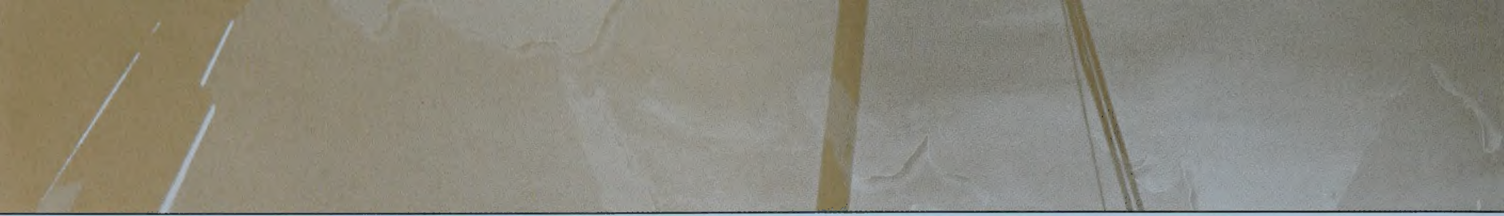
Royalties, net of Alberta Royalty Tax Credit, increased 131% to $456,324 in 2000, up from $197,885 in 1999. This large increase was due in part to increased production rates, the dramatic increase in oil and gas prices, a reduced average Alberta Royalty Tax Credit rate of only 26% for the entire year 2000, and an increase in Freehold and Overriding Royalty obligations related to new corporate production. The total effective royalty rate rose slightly between 1999 and 2000 from 9% of sales to 10% of sales.

Operating Costs

Operating costs totaled $627,105 for the year, which equates to $5.06 BOE, up 10% from 1999. This increase in operating costs is mainly attributable to higher operating costs on certain of the British Columbia properties that were purchased in late 1999.

General and Administrative

Total general and administrative expenses, net of recoveries, increased from $603,194 in 1999 to $701,894 in 2000. This increase was due to higher costs reflective throughout the industry of increased salaries, increased prices from support industries and higher office operating costs.



Interest

The 2000 interest expense of $71,548 was up significantly from $29,505 in 1999, due to an increase in the average outstanding balance on the operating line of credit.

Depletion, Depreciation and Site Restoration

Total depletion, depreciation and site restoration provision was $892,756 as compared with $689,845 in 1999. This increase was due primarily to production increases associated both with property acquisitions and additional drilling throughout the year. The depletion rate per BOE in 2000 was $6.31 compared with $6.05 in 1999.

Capital Expenditures

Total capital expenditures for the year were $3,081,824. Of this amount, $653,346 was spent on the acquisition of properties, with the balance being spent primarily on operations consisting of drilling and completions, re-completions, workovers and abandonments and capitalized G&A. There were no divestitures in the year 2000.

Financial Position

At the end of the reporting period, International Sovereign had undrawn lines of credit of $2,585,000 on a $3,200,000 credit line.

Business Risks

The oil and gas industry is subject to numerous risks, including commodity prices, interest rate and exchange fluctuations, as well as environmental concerns and the success of future drilling. International Sovereign attempts to reduce and manage those risks which are controllable.

Safety and Environmental

Safety and environmental concerns are addressed through a corporate contingency plan and by continued emphasis on complying with environmental legislation.

Management's Report

The information contained in this annual report and the accompanying financial statements and other financial information as well as the reporting process that produces such statements is the responsibility of Management.

Management maintains a system of internal controls designed to reasonably assure that transactions are appropriately authorized, that relevant and reliable financial information is produced in a timely manner, and that the assets of the corporation are adequately safeguarded.

The Management of the Company has the responsibility for the integrity and objectivity of the information contained in this annual report, and to ensure that the operating information presented throughout this annual report is consistent with that shown in the financial statements, which are prepared by Management in accordance with generally accepted accounting principles.

The external auditors, appointed by the shareholders of the Company have examined the financial statements in order to provide an independent view as to the fairness of reported operating results and financial condition.

The Audit Committee of the Board of Directors which consists primarily of non-management directors have reviewed the financial statements including notes thereto, with Management and has reported to the Board of Directors.

The financial statements, upon the recommendation of the Audit Committee, have been approved by the Board of Directors.

Lutfur Rahman Khan
Chief Executive Officer

Don Campbell

Donald G. Campbell
Chief Operating Officer

Auditors' Report

To the Shareholders of International Sovereign Energy Corp.

We have audited the balance sheets of International Sovereign Energy Corp. (the "Company") as at December 31, 2000 and 1999 and the statements of operations and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Deloitte & Touche LLP
March 16, 2001

Calgary, Alberta
Chartered Accountants

Balance Sheets

December 31,	2000 $	1999 $
Assets		
Current		
Accounts receivable	799,226	503,619
Prepaid expenses and deposits	6,800	8,175
	806,026	511,794
Property and equipment (Note 2)	9,536,064	7,315,956
	10,342,090	7,827,750
Liabilities		
Current		
Bank indebtedness	364,817	33,037
Accounts payable and accrued liabilities	399,165	7,710
Operating loan (Note 3)	615,000	828,000
	1,378,982	868,747
Future income tax liability (Note 4)	1,895,157	1,043,362
Site restoration and abandonment provision	136,569	105,529
	3,410,708	2,017,638
Shareholders' Equity		
Share capital (Note 5)	6,233,434	6,233,434
Retained earnings (deficit)	697,948	(423,322)
	6,931,382	5,810,112
	10,342,090	7,827,750

Approved by the Board

M.D.

Director

Director

STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Years Ended December 31,	2000 $	1999 $
Revenue		
Petroleum and natural gas revenues	4,706,765	2,254,754
Royalties, net of ARTC	(456,324)	(197,885)
Other income	16,177	–
	4,266,618	2,056,869
Expenses		
Operating costs	627,105	449,040
General and administrative	701,894	603,194
Interest	71,548	29,505
Depletion and depreciation	861,716	684,503
Site restoration	31,040	5,342
	2,293,303	1,771,584
Earnings Before Income Taxes	1,973,315	285,285
Income Taxes		
Current	250	–
Future (Note 4)	851,795	172,971
	852,045	172,971
Net Earnings	1,121,270	112,314
Deficit, Beginning of Year	(423,322)	(535,636)
Retained Earnings (Deficit), End of Year	697,948	(423,322)

Years Ended December 31,	2000 $	1999 $
Cash Flows Related to the Folllowing Activities:		
Operating		
Net earnings	1,121,270	112,314
Adjustments for:		
Depletion and depreciation	861,716	684,503
Site restoration	31,040	5,342
Future income taxes	851,795	172,971
	2,865,821	975,130
Changes in non-cash working capital	97,223	(142,362)
	2,963,044	832,768
Financing		
(Decrease) increase in operating loan	(213,000)	753,000
	(213,000)	753,000
Investing		
Additions to property and equipment	(3,081,824)	(2,359,775)
Proceeds on sale of property and equipment	–	311,321
	(3,081,824)	(2,048,454)
Net Decrease in Cash and Cash Equivalents	(331,780)	(462,686)
(Bank Indebtedness) Cash and Cash Equivalents, Beginning of Year	(33,037)	429,649
Bank Indebtedness, End of Year	(364,817)	(33,037)

Years Ended December 31, 2000 and 1999

1. Significant Accounting Policies

These financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and practices.

Cash and cash equivalents

Cash and cash equivalents includes cash and short-term investments with a maturity of 90 days or less at the time of issue.

Property and equipment

The Company follows the full cost method of accounting for oil and gas operations as prescribed by the Canadian Institute of Chartered Accountants. All costs related to exploration and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-producing properties, costs of drilling productive and non-productive wells and overhead charges related directly to acquisition, exploration and development activities.

Costs of acquiring and evaluating unproven properties are excluded initially from costs subject to depletion. These unproved properties are assessed regularly to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to the costs subject to depletion. Proceeds from disposal of properties will normally be applied as a reduction of the cost of the remaining assets unless the disposal represents a significant disposition of reserves, in which case a gain or loss will be recorded.

The net carrying value of the Company's petroleum and natural gas properties is limited to an ultimate recoverable amount. This is the aggregate of future net revenues from estimated proved reserves and the costs of unproved properties, net of impairment allowances, less future general and administrative costs, financing costs, site restoration and abandonment costs, and income taxes. Future net revenues are estimated using year-end prices and all costs are assumed to be constant.

Capitalized costs, including the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated proven reserves before royalties, determined by independent petroleum engineers. Oil and gas reserves and production are converted into equivalent units based upon estimated relative pricing content at a ratio of ten thousand cubic feet of gas to one barrel of oil.

Site restoration and abandonment

The estimated cost for future site restoration and abandonment is provided on the unit-of-production method based on the estimated remaining proven reserves and is included in site restoration expense. Estimates are prepared by the Company's engineers based on current costs and regulations in effect at the balance sheet date. Actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

Joint venture accounting

A portion of the Company's exploration and production activities is conducted jointly with others and, accordingly, these financial statements reflect only the Company's proportionate interest in such activities.

Financial instruments

The carrying values of accounts receivable, accounts payable and accrued liabilities and operating loan approximate the fair value of these financial instruments due to the short-term maturity of these instruments.

Stock based compensation plan

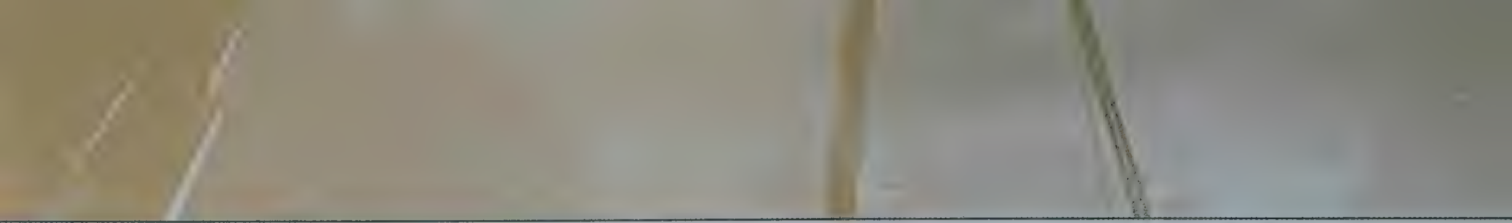
The Company has a stock based compensation plan, which is described in Note 5. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. If stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock option cancelled is charged to retained earnings.

Future income taxes

In 1999 the Company adopted, on a retroactive basis, the new accounting recommendation of the Canadian Institute of Chartered Accountants "Income Taxes". Under this method, future income tax assets and liabilities are measured based upon temporary differences between the carrying values of assets and liabilities and their tax bases. Income tax expense (recovery) is computed based on the change during the year in the future tax assets and liabilities. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Effects of changes in tax laws and tax rates are recognized when enacted.

2. Property and Equipment

	2000 $	1999 $
Petroleum and natural gas properties	12,178,346	9,131,555
Furniture and equipment	223,244	188,210
	12,401,590	9,319,765
Less accumulated depletion and depreciation	2,865,526	2,003,809
	9,536,064	7,315,956



During the year, the Company capitalized general and administrative expenditures of $402,946 (1999 – $325,646) directly related to both Canadian and international exploration and development activities.

There are costs for international projects in the amount of $371,729 (1999 – $325,646) which are currently not being depleted.

3. Operating Loan

During the year, the Company secured a revolving line of credit to a maximum of $3,200,000. The operating loan bears interest at prime plus 1%. The operating loan is secured by a demand debenture for a minimum of $5,000,000, providing a floating charge over all assets of the Company, and a letter of undertaking not to encumber or dispose of assets, other than in the normal course of business, without consent of the Bank, and to provide security under section 426 of the Bank Act and/or assign natural gas contracts. At December 31, 2000, the balance outstanding with respect to this facility was $615,000 (1999 – $828,000). In addition, the lender has issued on behalf of the Company letters of credit totaling $189,000 (1999 – $Nil).

4. Future Income Taxes

Effective January 1, 1999, the Company retroactively adopted the new accounting recommendation of the Canadian Institute of Chartered Accountants, "Income Taxes". Under the new recommendations, the liability method of tax allocation is used in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

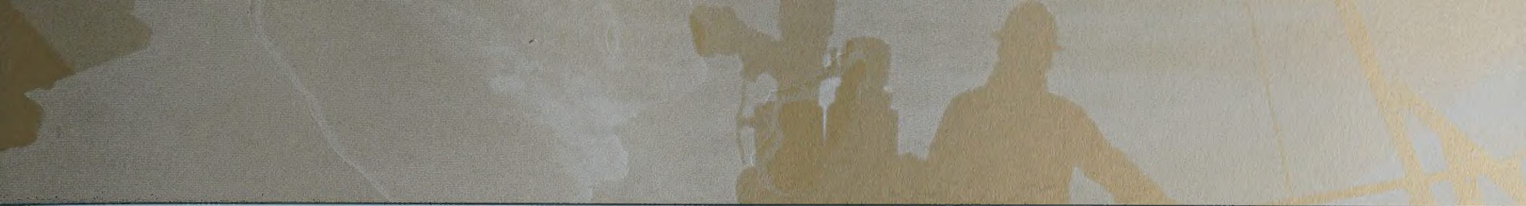
The provision for taxes varies from the amounts that would be computed by applying the effective Canadian federal and provincial income tax rates to earnings before taxes as shown below:

	2000 $	1999 $
Earnings before taxes	1,973,315	285,285
Corporate income tax rate	44.62%	44.62%
Computed income tax provision	880,493	127,294
Increase (decrease) resulting from:		
Non-deductible crown charges, net of ARTC	209,236	88,296
Taxable resource allowance	23,533	(69,191)
Non-deductible D & D	–	69,561
Resource allowance	(173,752)	(11,217)
Attributed Canadian royalty income	(90,944)	(29,218)
Non-capital loss carryforward recognized	–	2,334
Non-deductible meals, entertainment and life insurance	2,034	2,415
Other	1,195	(7,303)
	851,795	172,971

The Company has income tax losses available to be carried forward of $341,513. These losses expire at various times up to 2005. The future income tax benefit of these losses has been recognized in the financial statements.

The major components of the future income tax liability at December 31, 2000 using a combined federal and provincial rate of 44.62% are as follows:

	Future Tax Liability	
	2000 $	1999 $
Taxable temporary differences:		
Carrying value in excess of tax basis	2,200,116	1,458,863
Non-capital losses	(169,804)	(335,937)
Attributed Canadian royalty income carryforward	(90,944)	(74,637)
Differences in capital cost allowance claim for resource allowance	(44,211)	(4,927)
Balance, December 31	1,895,157	1,043,362



5. Share Capital

	Number of Shares	Amount $
Authorized		
Unlimited number of Class A common voting shares		
Unlimited number of Class B common non-voting shares		
Unlimited number of Class A preferred voting, 7%, non-cumulative, redeemable shares		
Issued		
Class A common shares Balance, December 31, 2000 and 1999 (i)	6,442,713	6,233,434

(i) On June 23, 1999, the shareholders of the Company approved the consolidation of the issued and outstanding common shares of the Company on a ratio of up to one-for-six basis as may be determined by the Board of Directors on March 21, 2000. The Board approved a share consolidation on a one-for-five basis. The issued share capital, stock options, and earnings per share, as presented have been restated retroactively to reflect this consolidation.

Stock option plan

Under the Company's stock option plan, the Company may grant options to its directors, officers and key employees to purchase Class A common shares ("Common Shares") from the Company at a fixed price not less than the fair market value of the stock on the day preceding the grant date. The options would be exercisable equally over three years. The option's maximum term is five years.

	Options	Weighted Average Exercise Price $
As at December 31, 1998 (Note 5(i))	533,387	0.85
Granted	60,000	0.50
Exercised	–	–
Forfeited	(237,720)	0.95
As at December 31, 1999	355,667	0.75
Granted	494,667	0.50
Exercised	–	–
Cancelled	(355,667)	0.75
As at December 31, 2000	494,667	0.50
Exercisable at December 31, 2000	164,889	0.50

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Price(s) $	Options Outstanding at December 31, 2000	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price $	Exerciseable at December 31, 2000	Weighted Average Exercise Price $
0.50	489,667	4.1	0.50	163,222	0.50
0.60	5,000	4.6	0.60	1,667	0.60
0.50 – 0.60	494,667	4.1	0.50	164,889	0.50

6. Related Party Transactions

During the year, the Company recovered general and administrative expenses totalling $24,000 (1999 – $24,000) from a corporation which has a director in common with the Company. At December 31, 2000, accounts payable of $13,633 (1999 – $7,192 receivable) include balances owed from companies which have a director in common with the Company.

7. Earnings and Cash Flows Per Share

	2000 $	1999 $
Earnings per share		
Basic	0.17	–
Fully diluted	0.16	–
Cash flows per share		
Basic	0.44	0.15
Fully diluted	0.41	0.15
Weighted average number of common shares		
Basic	6,442,713	6,442,713
Fully diluted	6,937,380	6,769,941

8. Commitment

The Company has committed to a lease for premises expiring in August of 2001. The following minimum payment is required on the lease:

	$
2001	36,933

9. Segmented Information

The Company sells its petroleum and natural gas products to various purchasers. For 2000, three large integrated purchasers accounted for 30%, 15% and 10% (1999 – 42% and 10%) of the Company's gross revenues.

The Company's core area of operation is in Canada and is currently investigating opportunities in other countries, which have not involved significant investment to date.

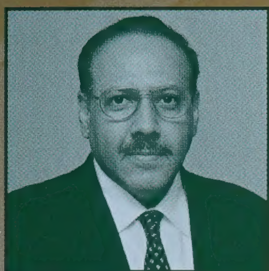
10. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted for current year.

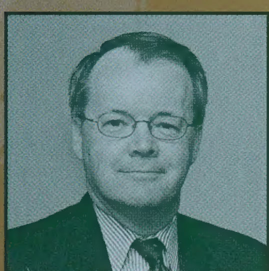
11. Supplementary Cash Flow Information

	2000 $	1999 $
Cash taxes paid	250	–
Cash interest paid	71,548	29,505

Corporate Information

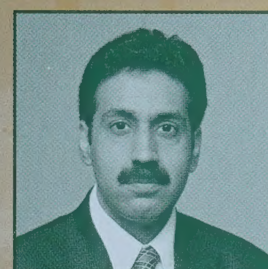


Lutfur Rahman Khan
Chairman of the Board and Chief Executive Officer

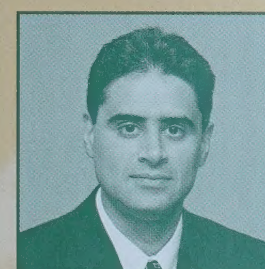


Donald G. Campbell
Sr. Vice President Engineering & Production and Chief Operating Officer

George P. Bowley
Sr. Vice President Exploration & Development



Dr. Waseem Rahman
Sr. Vice President Administration



Omair Choudhry
Vice President Personnel & Finance

Directors

Lutfur Rahman Khan (2*) (3*)

Dr. Asif Ali Syed (1*)

Dr. David Shaw (2)

Donald G. Campbell (3)

Dr. Waseem Rahman (1) (3)

Arman Aziz (1) (2)

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Executive Committee
* Chairman

Officers

Lutfur Rahman Khan
Chairman, President and Chief Executive Officer

Donald G. Campbell
Sr. Vice President
Engineering & Production and Chief Operating Officer

George P. Bowley
Sr. Vice President
Exploration & Development

Dr. Waseem Rahman
Sr. Vice President
Administration

Nadeem R. Khan
Sr. Vice President
Business Development

Omair Choudhry
Vice President
Personnel & Finance

Timothy S. Hoar
Corporate Secretary & General Counsel

Corporate Directory

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Fax: 011-92-51-2260 698

Registrar and Transfer Agent

Valiant Corporate Trust Company
Calgary, AB

Banker

The Bank of Nova Scotia
Calgary, AB

Auditors

Deloitte & Touche LLP
Calgary, AB

Independent Engineers

Chapman Petroleum Engineering Ltd.
Calgary, AB

Legal Counsel

ProVenture Law
Calgary, AB

Stock Exchange Listing

Canadian Venture Exchange
Symbol "ISR"

produced by ion communications

International
Sovereign Energy Corp.

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Operations Office
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